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TAO HEUNG HOLDINGS LIMITED

稻香控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 573)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

HIGHLIGHTS

	For the year ended 31 December		Decrease in %
	2020	2019	
	(HK\$'000)	(HK\$'000)	
Revenue	2,388,477	3,905,708	(38.8%)
Profit/(loss) after tax	(55,383)	135,804	(140.8%)
Profit/(loss) attributable to owners of the parent	(57,956)	124,968	(146.4%)
	HK cents	HK cents	
Basic earnings/(loss) per share	(5.70)	12.29	(146.4%)
Proposed final dividend per share	3.00	3.50	(14.3%)
No. of restaurants and bakery outlets at 31 December	128	137	
at announcement date	120	136	

* For identification purpose only

CHAIRMAN'S STATEMENT

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Tao Heung Holdings Limited (the “**Company**”) together with its subsidiaries (“**Tao Heung**” or the “**Group**”), I hereby present the annual results of the Group for the year ended 31 December 2020.

Over the past year, the food and beverage (“**F&B**”) industry has been hard hit by the fallout of COVID-19. Since the outbreak of the virus in late 2019, the introduction of ever stricter social distancing measures has followed, culminating in the suspension of group and evening dining. Such measures had a serious blow on consumption sentiment, and the F&B industry as a whole, including the Group. While our performance in Hong Kong was severely weakened, our performance in Mainland China was able to improve towards the second half year. Since shutting down in the first quarter, our operations made a recovery by the third and fourth quarters, delivering performance metrics that bettered the same periods last year. The encouraging development can be attributed to the alertness of our management team which promptly and astutely devised various strategies to minimise the impact of the pandemic on both our Hong Kong and Mainland China operations. Such strategies have included leveraging the uptake of food takeout by fine-tuning our takeaway menus, improving the packaging for takeaway food items, and fully capitalising on various distribution channels. Still other efforts have included creating takeaway catering (外賣到會) menus for festive seasons with the goal of making certain products available long term. We have also invested time and energy to develop our packaged food business, which has become an increasingly relevant source of income, accounting for approximately 11% of revenue during the review year. To reach customers in Hong Kong and Mainland China, the Group has tapped various online and offline channels, including 7-Eleven, HKTVMall, Tmall.com, JD.com, etc. Overseas markets have been entered as well, including Vietnam, with Australia set to be our newest destination.

With regard to our restaurant operations, we have by no means capitulated to the stiff headwinds. The Group has instead sought to enhance the dining experience and service quality for all dine-in customers, which will stand it in good stead once conditions eventually return to normal.

Going forward, the Group will direct greater effort towards enhancing its exposure in more Mainland China cities. Apart from Guangdong province which currently accounts for 65% of our revenue from Mainland China, we will also focus on tapping other cities, particularly in the Central and Western China, as we believe that these regions hold tremendous potential given the strong spending power of the local populace. As for the Hong Kong market, we will continue to consolidate our network and expand our brand to cater for higher income customers.

Overall, we believe that the F&B industry, both in Hong Kong and Mainland China, will face a shift in consumption pattern in the post-pandemic era. Ahead of this transitional period, we will direct greater effort towards bolstering our peripheral business as well as diversifying our business operation. This will entail the expansion of our product options and distribution of our packaged food. In addition, we will seek to promote development of our group catering services in view of its strong potential. Yet another important objective will be to further extend our reach across Mainland China by way of online ordering and delivery of packaged food as well as takeaway services. In the long run, we hope to enhance the Group's overall coverage and business presence in the country, while at the same time develop potential overseas markets through our packaged food business.

As we endeavour to build a better future, we will not forget the many allies who have stood by the Group during these challenging times, including the Hong Kong SAR Government. Besides expressing concern for the F&B industry in the wake of COVID-19, their offer of subsidies and associated measures have helped to mitigate the pandemic's devastating impact.

The Group is fully committed to furthering the development of its Chinese restaurant operations in both Hong Kong and Mainland China. In doing so, it will keep abreast of the latest market developments, and take a prudent yet active approach in managing operations so as to contend with the present while being fully prepared for the future, whatever market conditions may be.

Tao Heung celebrates 30th anniversary – Steadfastly pursues healthy growth, delivery of ambrosial flavours and promotion of positive mindset

The Group will be celebrating its 30th anniversary in 2021. Just like ears of wheat that turn gold when ripe, the Group has steadfastly pursued healthy growth, delivered appetising flavours and promoted a positive mindset for the past three decades. Correspondingly, while adhering to the spirit of “Endurance, Perseverance and Innovation”, the Group has not only kept abreast of the latest trends and focused on protecting the legacy and encouraging the development of Guangdong cuisine, but has also cared about the wellbeing of customers, employees, shareholders and the industry. In this way, Tao Heung can truly be regarded as a brand synonymous with ambrosial flavours and rich in humanity.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to the management and staff for their dedication and contributions to Tao Heung. In addition, I wish to thank all of our business associates, customers and shareholders for their unwavering support during this highly challenging past year.

Chung Wai Ping
Chairman

Hong Kong
19 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Review

The Board hereby announces the annual results of the Group for the year ended 31 December 2020. During the review year, the headwinds created by the COVID-19 pandemic showed no signs of abating. Like other members of the F&B industry, the Group experienced tremendous pressure, which in turn pushed it into a loss-making position. In Hong Kong, the strict social distancing measures seriously hindered the performance of the Group's restaurant operations. In Mainland China, with strong support from the government in containing and combating the virus, the local F&B industry began its recovery starting from the second quarter of 2020. However, the business sentiment generally remained challenging, hence the reason why the Group was determined to devise and implement strategies to address market conditions. In the end, it was able to improve operational models, as well as strengthen its peripheral businesses, including those for capitalising on the online consumption and shopping trends.

Financial Results

During the review year, the Group recorded total revenue of HK\$2,388.5 million (2019: HK\$3,905.7 million), a year-on-year decline of 38.8%. Gross profit margin (defined as total revenue less cost of inventories sold divided by total revenue) stood at 65.4% (2019: 66.8%). Loss attributable to equity holders of the Company was HK\$58.0 million (2019: Profit of HK\$125.0 million). Hong Kong continued to constitute the largest revenue contributor of the Group's business operations, accounting for 53.0% of the total revenue (2019: 61.1%), with Mainland China accounting for 47.0% (2019: 38.9%), though the latter has increased appreciably.

The Board has proposed a final dividend of HK3.0 cents per share for the year ended 31 Dec 2020 (2019: HK3.5 cents).

Hong Kong Operations

Revenue from the Hong Kong operations amounted to HK\$1,265.4 million (2019: HK\$2,386.6 million), with earnings before interest, tax, depreciation and amortisation (EBITDA) at HK\$218.1 million (2019: HK\$401.3 million). Loss attributable to equity holders of the Company was HK\$45.2 million (2019: Profit of HK\$61.2 million).

During the review year, the Hong Kong operations were confronted by stiff challenges arising from strict social distancing measures, and in particular, the banning of evening restaurant dining for certain periods of time. Consequently, the Group directed its efforts towards breakfast, lunch, takeaway and delivery-related opportunities. With respect to its dine-in operation, the use of mobile ordering systems and "Tea Trolley (茶車)", which allows customers to make their own fresh tea throughout their meals, have penetrated the Group's restaurant network, helping to optimise manpower as well as enhance the overall dining experience.

In response to the challenging business environment, the Group has bolstered its sales channels through strategic partnerships with a number of food delivery platforms, including Deliveroo, Foodpanda and The Gulu, while its restaurants have continued to remain open in the evening for facilitating takeaways. In addition, to attract both dine-in and takeout customers, the Group adjusted its menu to capitalise on offerings that have proved successful, including Alaskan King Crab, Clay Pot Rice, Poon Choi, festive food for Christmas, Lunar New Year, Winter Solstice, etc. as well as group catering. The Group has also introduced attractive packaging for ensuring that food is not only well-packed but also hot holding and visually appealing. All of the aforementioned efforts have been well received by customers, as evidenced by higher sales per order and increased sales in both takeaway and delivery businesses. It is worth noting that the Group will continue to place effort on the aforementioned businesses as it trusts that they will account for a growing portion of income even in the post-pandemic era.

As at 31 December 2020, the Group had a total of 46 restaurants in Hong Kong (2019: 49 restaurants). The Group will continue to right size and consolidate its restaurant network in order to improve operational efficiency and safeguard business stability, which in turn will further consolidate the Group's reputation and position as a renowned Chinese culinary group.

The Group operated a total of 13 Tai Cheong bakeries in Hong Kong (2019: 17 bakeries), along with eight bakeries in Singapore (2019: four bakeries) as at 31 December 2020. It has placed greater effort towards developing the overseas market, particularly Southeast Asia, due to the promising performance, demographics, spending power and better pandemic control in the region. The Group targets to open at least two more bakeries in Singapore and will start tapping the Malaysian market in the new financial year.

Mainland China Operations

Revenue from the Mainland China operations totalled HK\$1,123.1 million (2019: HK\$1,519.1 million) during the review year, with EBITDA at HK\$190.7 million (2019: HK\$329.6 million) and loss attributable to equity holders of the Company at HK\$12.8 million (2019: Profit of HK\$63.8 million).

Under the leadership of the Mainland China Government, the COVID-19 outbreak was effectively contained since early 2020, hence its impact on the Group's business was principally limited to the first quarter of the financial year. By end of the second quarter, the performance of the Group's restaurants had improved; outpacing the corresponding period last year. Furthermore, the takeaway and delivery businesses remained robust as the Group effectively leveraged such popular platforms as Dianping.com (大眾點評), Meituan (美團) and ele.me (餓了麼).

To improve the bottom line, the Group has sought a variety of means to control costs, including negotiating with landlords for more competitive rental terms. In addition, more training has been provided for staff so that they can take on different tasks, and thus enhance efficiency, which has a positive knock-on effect on the Group's operations as a whole.

As at 31 December 2020, the Group had a total of 48 restaurants in Mainland China (2019: 46 restaurants), and 21 bakeries (2019: 25 bakeries) under the Bakerz 180 brand. The Group plans to put more efforts in network expansion so as to seize opportunities for generating greater revenue from the Mainland China operations. At least six new restaurants are planned to be opened in 2021.

Peripheral Businesses

Among the highlights of the review year was the Group's chilled and packaged food business, which performed encouragingly as reflected by revenue of HK\$254.0 million (2019: HK\$218.5 million), a year-on-year increase of 16.2%, thus accounting for 10.6% (2019: 5.6%) of the Group's total revenue. Recognising early on their rising popularity, the Group promptly directed effort towards partnering with sizable local supermarkets and online shopping platforms. Aside from the local market, the Group will continue to tap the overseas markets as well, particularly Southeast Asia, to sustain business growth.

With regard to the Group's self-owned supermarkets, which are found at its three integrated complexes, sales have risen by approximately 27%, and the Group believes that they possess good potential for contributing still greater revenue in the future, supported by a strong line up of chilled and packaged food products.

Given the promising results of the chilled and packaged food business, the Group will formulate strategies to expedite its development; constituting an important focus going forward.

Financial Resources and Liquidity

As at 31 December 2020, the Group's total assets were approximately HK\$2,943.9 million (2019: approximately HK\$3,061.3 million) while the total equity was approximately HK\$1,594.8 million (2019: approximately HK\$1,637.3 million).

As at 31 December 2020, the Group had cash and cash equivalents of approximately HK\$561.2 million. After deducting total interest-bearing bank borrowings of approximately HK\$272.5 million, the Group had a net cash surplus position of approximately HK\$288.7 million.

As at 31 December 2020, the Group's gearing ratio (defined as total interest-bearing bank borrowings divided by total equity attributable to owners of the parent) was 17.3% (2019: 9.5%).

Capital Expenditure

Capital expenditure for the year ended 31 December 2020 amounted to approximately HK\$196.7 million and capital commitments as at 31 December 2020 amounted to approximately HK\$17.6 million. The capital expenditure and capital commitments were mainly for the renovation of the Group's new and existing restaurants and logistic centres.

Contingent Liabilities

As at 31 December 2020, the Group had contingent liabilities in respect of bank guarantees given in lieu of rental and utility deposits amounting to approximately HK\$24.8 million (2019: approximately HK\$26.9 million).

Foreign Exchange Risk Management

The Group's sales and purchases for the year ended 31 December 2020 were mostly denominated in Hong Kong Dollars (“**HK\$**”) and Renminbi (“**RMB**”).

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against HK\$ may have impact on the operation results of the Group.

The Group currently does not have a foreign currency hedging policy. However, management monitors the foreign exchange exposure and arranges foreign exchange forward contracts to minimize foreign currency exposure when appropriate.

Human Resources

As at 31 December 2020, the Group had 6,005 employees. In order to attract and retain high quality staff and to enable smooth operation within the Group, the Group offers competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house as well as external training courses. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted share option schemes, where eligible employees are entitled to various share options to subscribe for the ordinary shares in the Company for their past and potential contribution to the growth of the Group. As at 31 December 2020, there are 10,400,000 outstanding options granted under the Share Option Scheme which have not been exercised yet.

Pledge of Assets

As at 31 December 2020, the Group pledged its bank deposits of approximately HK\$15.1 million, right-of-use assets of approximately HK\$48.5 million and buildings of approximately HK\$31.3 million and investment properties of approximately HK\$20.5 million to secure the banking facilities granted to the Group.

Prospects

The past financial year was a time in which the Group sought to adjust and refine its business model. Consequently, it was able to demonstrate tremendous resilience despite the strong headwinds brought on by the COVID-19 pandemic. As near-term prospects are expected to remain lacklustre, the Group will draw from its experience in operating amid market troughs, employ strict cost control measures, and seek high-potential opportunities so as to protect its business interests. Given that vaccine rollouts have commenced, the management is cautiously optimistic about the Group's performance further down the road, particularly as Mainland China experiences a more robust economic recovery. In the wake of the new normal, the Group will also look to seize the emerging opportunities. Backed by the brand equity of Tao Heung, its strong network and ample resources, the Group will continue to enhance all facets of operation – covering both online and offline capabilities, so as to deliver sustainable returns to its shareholders over the long term.

RESULTS

The board of directors (the “**Board**”) of Tao Heung Holdings Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively “**Tao Heung**” or the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
REVENUE	4	2,388,477	3,905,708
Cost of sales		(2,356,715)	(3,409,940)
Gross profit		31,762	495,768
Other income and gains, net	4	213,500	106,748
Selling and distribution expenses		(90,047)	(105,078)
Administrative expenses		(168,418)	(198,253)
Other expenses		(27,893)	(66,486)
Finance costs	5	(36,921)	(42,977)
Share of profits of associates, net		5,600	666
PROFIT/(LOSS) BEFORE TAX	6	(72,417)	190,388
Income tax credit/(expense)	7	17,034	(54,584)
PROFIT/(LOSS) FOR THE YEAR		(55,383)	135,804
Attributable to:			
Owners of the parent		(57,956)	124,968
Non-controlling interests		2,573	10,836
		(55,383)	135,804
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic (HK cents)	9	(5.70)	12.29
– Diluted (HK cents)	9	(5.70)	12.29

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE YEAR	<u>(55,383)</u>	<u>135,804</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>62,520</u>	<u>(13,420)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>7,137</u>	<u>122,384</u>
Attributable to:		
Owners of the parent	<u>3,039</u>	111,942
Non-controlling interests	<u>4,098</u>	<u>10,442</u>
	<u>7,137</u>	<u>122,384</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		886,363	897,786
Right-of-use assets		760,951	883,295
Investment properties		25,100	29,400
Goodwill		39,556	38,677
Other intangible asset		–	–
Investments in associates		8,378	5,084
Deferred tax assets		112,583	86,549
Rental deposits		74,393	89,374
Deposits for purchases of items of property, plant and equipment		84,878	31,910
Total non-current assets		1,992,202	2,062,075
CURRENT ASSETS			
Inventories		163,272	170,867
Trade receivables	<i>10</i>	26,469	43,507
Prepayments, deposits and other receivables		169,510	144,259
Tax recoverable		11,826	1,690
Pledged deposits		15,052	13,875
Restricted cash		4,344	4,100
Cash and cash equivalents		561,243	620,940
Total current assets		951,716	999,238
CURRENT LIABILITIES			
Trade payables	<i>11</i>	91,557	119,872
Other payables and accruals		212,570	247,192
Interest-bearing bank borrowings		272,500	153,100
Lease liabilities		215,610	246,641
Tax payable		5,024	20,118
Total current liabilities		797,261	786,923
NET CURRENT ASSETS		154,455	212,315
TOTAL ASSETS LESS CURRENT LIABILITIES		2,146,657	2,274,390

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT LIABILITIES		
Other payables and accruals	14,028	11,741
Lease liabilities	518,321	606,408
Deferred tax liabilities	19,469	18,950
	<hr/>	<hr/>
Total non-current liabilities	551,818	637,099
	<hr/>	<hr/>
Net assets	1,594,839	1,637,291
	<hr/>	<hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	101,661	101,661
Reserves	1,470,576	1,503,338
	<hr/>	<hr/>
	1,572,237	1,604,999
Non-controlling interests	22,602	32,292
	<hr/>	<hr/>
Total equity	1,594,839	1,637,291
	<hr/>	<hr/>

Notes:

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties which have been measured at fair value. The financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Other than as explained below regarding the impact of Amendment to HKFRS 16, the adoption of the above revised standards have had no significant financial effect on these financial statements.

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group’s restaurants and bakery properties have been reduced or waived by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in lease payments arising from the rent concessions of HK\$52,882,000 has been accounted for as a variable lease payments by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2020.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of food catering services through a chain of restaurants and bakery shops. Information reported to the Group's chief operating decision maker (i.e. the Chief Executive Officer) for the purpose of resource allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The following tables present revenue from external customers for the years ended 31 December 2020 and 2019, and certain non-current asset information as at 31 December 2020 and 2019, by geographic area.

(a) *Revenue from external customers*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	1,265,392	2,386,557
Mainland China	1,123,085	1,519,151
	<u>2,388,477</u>	<u>3,905,708</u>

The revenue information above is based on the locations of the customers.

(b) *Non-current assets*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	683,318	816,246
Mainland China	1,121,908	1,069,906
	<u>1,805,226</u>	<u>1,886,152</u>

The non-current asset information above is based on the locations of assets and excludes financial assets and deferred tax assets.

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Restaurant and bakery operations	2,040,420	3,558,810
Sale of food and other items	253,976	218,518
Poultry farm operations	94,081	128,380
	2,388,477	3,905,708

An analysis of other income and gains, net is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Bank interest income	10,603	11,588
Government grants	166,127	55,138
Gross rental income	555	2,224
Sponsorship income	1,535	2,023
Gain on disposal of items of property, plant and equipment, net	8,274	2,447
Gain on disposal of associates	–	208
Gain on termination of leases	17,869	479
Gain on modification of a lease	145	–
Foreign exchange differences, net	1,902	–
Compensation of loss from the former non-controlling shareholder of a subsidiary	–	22,881
Others	6,490	9,760
	213,500	106,748

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank loans	4,066	3,386
Interest on lease liabilities	32,855	39,591
	36,921	42,977

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold	825,976	1,296,177
Depreciation of property, plant and equipment	174,849	194,860
Depreciation of right-of-use assets	269,478	302,659
Amortisation of other intangible asset	–	40
Employee benefit expense (including directors' remuneration):		
Salaries and bonuses	722,734	1,042,861
Retirement benefits scheme contributions (defined contribution schemes)	34,437	73,263
	<u>757,171</u>	<u>1,116,124</u>
Loss on disposal of an investment property	100	–
Impairment of trade receivables, net	310	1,231
Impairment of items of property, plant and equipment	7,204	28,076
Impairment of right-of-use assets	12,016	31,113
Impairment of other intangible asset	–	850
Impairment of other receivable	2,702	–
Write-off of items of property, plant and equipment	2,883	1,116
Provision for onerous contracts	2,678	–
	<u>2,678</u>	<u>–</u>

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/19. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	865	14,813
Overprovision in prior years	(384)	(445)
Current – Mainland China	6,202	14,457
Deferred	(23,717)	25,759
	<u>(17,034)</u>	<u>54,584</u>
Total tax charge/(credit) for the year	<u>(17,034)</u>	<u>54,584</u>

8. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interim – Nil (2019: HK6.00 cents) per ordinary share	–	60,997
Proposed final – HK3.00 cents (2019: HK3.50 cents) per ordinary share	<u>30,490</u>	<u>35,581</u>
	<u>30,490</u>	<u>96,578</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,016,576,491 (2019: 1,016,611,000) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amount in respect of a dilution as the impact of share options outstanding had no dilutive effect on the basic earnings/(loss) per share.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<u>Earnings/(loss)</u>		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation	<u>(57,956)</u>	<u>124,968</u>
	Number of shares	
	2020	2019
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings/(loss) per share calculation	<u>1,016,576,491</u>	<u>1,016,611,000</u>

10. TRADE RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	30,156	46,884
Impairment	<u>(3,687)</u>	<u>(3,377)</u>
	<u>26,469</u>	<u>43,507</u>

The Group's trading terms with its customers are mainly on cash and credit card settlement. The Group also grants a credit period between 30 to 90 days to certain customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	20,157	31,403
1 to 3 months	5,204	11,658
Over 3 months	1,108	446
	26,469	43,507

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 month	79,743	106,037
1 to 2 months	3,399	6,362
2 to 3 months	2,216	704
Over 3 months	6,199	6,769
	91,557	119,872

The trade payables are non-interest-bearing and generally with payment terms within 60 days.

OTHER INFORMATION

Dividend

In acknowledging continuous support from the Company's shareholders, the Directors have declared the payment of a final dividend of HK3.00 cents per ordinary share in respect of the year ended 31 December 2020, payable on 10 June 2021 to shareholders whose names appear on the register of member of the Company on 26 May 2021.

Closure of Register of Members

The register of members of the Company will be closed during the following periods:

- (i) From Monday, 17 May 2021 to Friday, 21 May 2021, both days inclusive, for the purpose of ascertaining shareholders' entitlements to attend and vote at the 2020 Annual General Meeting. In order to be eligible to attend and vote at the 2020 Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 14 May 2021; and
- (ii) On Thursday, 27 May 2021, for the purpose of ascertaining shareholders' entitlements to the proposed final dividend. In order to establish the entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 26 May 2021.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfer of shares will be registered.

Corporate Governance

During the year ended 31 December 2020, the Company has adopted the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and complied with all applicable code provisions under the Code, save and except for the deviation from the code provision A.2.1 of the Code. Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. Currently, the Company does not comply with code provision A.2.1, i.e., the roles of the Chairman and CEO have not been separated. Considering that Mr. Chung Wai Ping has been operating and managing the Group since its incorporation, the Board believes that it is in the best interest of the Group to have Mr. Chung Wai Ping taking up both roles for effective management and business development. Therefore, the Board considers that the deviation from code provision A.2.1 is appropriate in such circumstance.

Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the Directors, all the Directors have complied with the required standards as set forth in the Model Code throughout the year ended 31 December 2020.

Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2020, the Company has repurchased a total of 263,000 shares on the Stock Exchange. The repurchased shares were subsequently cancelled by the Company in January 2021. Details of the repurchase are disclosed as follows:

Date of Repurchase	Number of Shares Repurchased	Repurchase Price Per Share	
		Highest	Lowest
2 November 2020	113,000	HK\$0.86	HK\$0.85
23 November 2020	150,000	HK\$0.82	HK\$0.82

Saved as disclosed above, there were no other purchases, sales or redemptions of the Company’s listed securities by the Company or any of its subsidiaries during the period.

Audit Committee

The Company established the Audit Committee on 9 June 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review and supervision of the financial reporting processes, the internal control systems and licensing issues of the Group. Currently, Mr. Mak Hing Keung, Thomas and Professor Chan Chi Fai, Andrew, all being Independent Non-executive Directors and Mr. Chan Yue Kwong, Michael, a Non-executive Director, are members of the Audit Committee with Mr. Mak Hing Keung, Thomas, being the chairman.

The Company’s annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee, which is of the view that the applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

Scope of Work of the Company's Auditor in respect of this Preliminary Announcement

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Company's auditor, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2020. The work performed by the Company's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently, no assurance has been expressed by the Company's auditor on this preliminary announcement.

Annual General Meeting

The 2020 Annual General Meeting of the Company will be held on Friday, 21 May 2021. Notice of the 2020 Annual General Meeting will be published and issued to shareholders in due course.

Disclosure of information on the Stock Exchange's website

The electronic version of this announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.taoheung.com.hk).

By order of the Board
Tao Heung Holdings Limited
Chung Wai Ping
Chairman

Hong Kong, 19 March 2021

As at the date of this announcement, the board of directors of the Company comprised 9 directors, of which four are executive directors, namely Mr. Chung Wai Ping, Mr. Wong Ka Wing, Mr. Ho Yuen Wah and Mr. Chung Chun Fung; two are non-executive directors, namely Mr. Fong Siu Kwong and Mr. Chan Yue Kwong, Michael and three are independent non-executive directors namely Professor Chan Chi Fai, Andrew, Mr. Mak Hing Keung, Thomas and Mr. Ng Yat Cheung.